

Statement of
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House Budget Committee

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Mr. Chairman, Congressman Spratt, and Members of the Committee:

It is a great honor to be afforded the opportunity to speak with you today about important Budget Enforcement Act provisions and about the possible extension of the Act beyond Fiscal Year 2002.

In 1998, fiscal discipline set in motion years earlier began to pay tangible dividends. After running budget deficits for many decades, budget surpluses emerged. Many observers, myself included, feared at the time that budget surpluses would be short lived. In particular, in previous years deficits constrained the growth of government spending. It is difficult, but not impossible, to spend money that is not there. With cash piling up in Washington, the temptation to spend might be too much to resist.

Subsequently, we received good news and bad news. The good news was that the blossoming new economy outpaced even the most optimistic economist's expectations, and accordingly revenue surged. On the other hand, fears that spending would find a way to outpace expectations turned out to be well placed. Over the past three years, spending has surpassed the statutory limits that Congress and President Clinton agreed upon in 1997, by \$199 billion. To put that number in perspective, it is more money than we spent

on defense in a typical year at the height of the cold war, and more than total Medicare spending in 2000 (which was about \$197 billion). Despite these spending increases, the revenue surge was significant enough that surpluses, and the temptation to spend them, remain.

Of course, not all spending is bad. Our elected officials are charged with the task of shepherding our resources wisely, and often they are up to the task. I am confident that no member of this august body intentionally wastes a penny. But over the longer term, the good intentions of our government officials pile up into astonishing liabilities for current and future taxpayers. Spending programs, once started, seldom end, and a thousand worthy projects cumulate into an economically unwise spending binge.

As a student of the interactions between the political and economic processes, I find the low frequency or longer term patterns of spending most astonishing. For example, Torsten Persson, a distinguished economist, recently wrote a paper for the National Bureau of Economic Research that documented the steady growth of government spending worldwide. For the average country, government spending increased over the past 40 years by about 8 percent of GDP. Clearly, there is an overwhelming force driving spending upward. Even in the U.S., where deficits for many years constrained the growth of government, spending ticked up over that time by about ½ percent of GDP.

How does spending advance? There are two forces that appear most powerful. First, when the economy booms and revenues surge, spending tends to ratchet upwards. Second, politicians tend to increase spending aggressively in election years. Outside of

election years, and during downturns, these tendencies abate, but not enough to halt the inexorable rise of government.

Against this backdrop, it is clear that one of the most important duties of this body is to take a longer term perspective. To pursue new spending programs when they are worthy, but also to keep an eye on the long term growth of government. Deficits forced Congress to do this, but in an age of surpluses, self discipline must replace the power of necessity. If our experience of the past three years is any guide, self discipline alone is not enough.

This is why I support the extension of spending caps past 2002. If negotiated wisely with members of both parties, spending caps can allow for ample funds to support our priorities, but also draw a line in the sand limiting the growth of government. Spending caps can serve an important function. In particular, when unanticipated new challenges require action---the broadband situation today comes to mind---we must cut an older program that has outlived its usefulness to cover the cost of the new program. It is always difficult to eliminate a program, no matter how ineffective it may be. Spending caps can, in principle, force us to make the tough decisions.

Of course, the latest run-up in spending occurred while caps were present. Congress decided to ignore them. There is no guarantee that caps will work. But even in this climate of largesse, I believe that caps have served a useful purpose. By establishing what both parties thought a reasonable limit to spending might be *ex ante*, the caps have and will continue to allow voters to evaluate the performance of their elected officials against a clear marker. Voters in recent years have seen spending increase in programs that are often popular. On the downside, the spending caps were exceeded. Was the

trade-off worth it? Voters will clearly decide, but even busted caps frame the debate in a way that is useful in our democracy. They remind everyone that trade-offs must be made.

Finally, I urge you to consider the uncertainty that results from our inability to commit to a long term spending plan. Currently, the CBO provides baseline projections under a predetermined set of rules: The *capped* baseline, the *freeze* baseline, and the *inflated* baseline. The differences between these projections can be large. The inflated baseline, for example, has a lower surplus than the others by more than a trillion dollars over the next ten years. Nobody can possibly say which baseline will prove to be most reasonable, in part because there is so much uncertainty about government spending. As we begin to get our house in order in anticipation of long-run fiscal challenges facing our nation, knowing whether we will have that trillion dollars to work with is material. Instead, we do not know. If we were to extend caps, and amend them so that they are more effective, we could eliminate that uncertainty, and make the policy planning job significantly easier.

For these reasons, I urge this body to consider extending caps that are reasonable and safely at the top of the range of spending that you believe proper.